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C O N F I D E N T I A L ROME 002953

SIPDIS

E.O. 12958: DECL: 09/21/2015

TAGS: EFIN PREL ZI IT IMF

SUBJECT: ZIMBABWE IMF: ITALY LEANING AGAINST EXPULSION IN LIGHT OF RECENT PAYMENT

REF: A. STATE 158016

B. STATE 163126

Classified By: Economic M/C Scott Kilner, for reasons 1.4 (b)(d).

¶1. (C) Summary: The GOI is leaning towards giving Zimbabwe additional time in light of the GOZ's recent partial payment of its arrears. End summary.

¶2. (C) Economic Counselor and Econoff delivered reftel points August 30 to Ignazio Angeloni, Director General for International Affairs at the Ministry of Finance (who also serves as President of SACE, Italy's export credit bank). Poloff and Econoff also jointly delivered Ref demarche on 1 September to Claudio Spinedi and Giuseppina Zarra from the MFA's Directorate General for Multilateral Economic and Financial Cooperation; and to Umberto Maltani, MFA Zimbabwe Desk Officer.

FINANCE MINISTRY VIEWS

¶3. (C) Angeloni said he wanted to confer with Italy's IMF Executive Director before reacting to our points. On September 1, he called Econ Counselor to say that Italy's IMF Executive Director had reported that Zimbabwe had made a "sizeable" payment on its arrears August 29. Using SDR, rather than dollar figures, Angeloni said Zimbabwe had been in arrears some SDR 200 million, but had repaid SDR 82, or about two-thirds of its arrears. Angeloni believed the repayment showed "some good will" on Zimbabwe's part, and that when this is the case, Fund members try to continue to work with the member in question.

¶4. (C) He said Italy's soundings at the Fund after the arrears payment indicated there would not be sufficient support to amass the necessary weighted fifty percent vote for the Executive Board to recommend to the Board of Governors to expel Zimbabwe from the IMF. Angeloni thought under these conditions it would be better to wait to see if Zimbabwe's "good will" continued - and if Zimbabwe could turn around its disastrous economic policies.

MFA VIEWS

¶5. (C) Spinedi said Italy concurs with the USG assessment of Zimbabwe and the IMF, and added that ultimately ousting Zimbabwe will be a political decision. He said Italy condemns the Mugabe government's slum-clearing operations and does not exclude expelling Zimbabwe from the IMF, but Italy must first confer with EU colleagues. (Spinedi said this was the first demarche they had received on the topic.) Rome's instructions to Italy's IMF executive director in Washington are to join the consensus among other G-7 directors but not/not to openly advocate for Zimbabwe's expulsion.

¶6. (C) Spinedi acknowledged that the IMF staff has not yet issued its fact-finding report, but judged that it would recommend an additional six-month delay in deciding Zimbabwe's fate within the IMF. He noted that Zimbabwe's Central Bank had taken "small steps" in the right direction, despite Mugabe government policies. Spinedi and Maltani noted that it will be difficult to take on Zimbabwe when "other" African states, including the Southern African Development Community, are trying to give Harare the benefit of the doubt.

¶7. (C) Spinedi said he was aware of reports that Zimbabwe had recently made a payment on its arrears and wondered how this would change the mood within the IMF. He did not think Harare had received financial assistance from South Africa, but had probably "dug deep" into its own coffers to make a last-minute gesture.

COMMENT

¶8. (C) We believe that Italy will follow the EU lead on expelling Zimbabwe from the Fund, and may even press to give Zimbabwe another chance, following the sizeable arrears payment. End comment.

SPOGLI

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